

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-08 AID-05 CIAE-00 COME-00 FRB-03
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TAGS: ECON, EFIN, EINV, ETRD, DR
SUBJ: ANNUAL ECONOMIC SPEECH GIVEN BY CENTRAL BANK GOVERNOR

BEGIN SUMMARY: ON MARCH 24 FERNANDO PERICHE PRESENTED
THE MAJOR ECONOMIC ADDRESS GIVEN ANNUALLY BY THE GOVERNOR
OF THE CENTRAL BANK. HIS SPEECH FOLLOWED CLOSELY AND
ELABORATED UPON THE ECONOMIC PRESENTATION OF PRESIDENT
JOAQUIN BALAGUER IN HIS INDEPENDENCE DAY ADDRESS FEBUARY
27. 1976 WAS DESCRIBED AS A RELATIVELY SUCCESSFUL
YEAR, DESPITE THE DISASTROUS PLUNGE IN SUGAR EXPORT
EARNINGS. PERICHE GAVE CURRENT GROSS FOREIGN EXCHANGE
RESERVES AS \$109.0 MILLION, AN INCREASE OF 30 PERCENT
OVER THIS TIME LAST YEAR, BUT SAID NOTHING ABOUT CURRENT
NET RESERVES, WHICH ARE REPORTEDLY THE EQUIVALENT OF
ABOUT ONE WEEK'S WORTH OF IMPORTS. REAL GNP GROWTH IN
1976 WAS DESCRIBED AS 5.4 PERCENT AND INFLATION 7.8
PERCENT. (EMBASSY ESTIMATES TWO TO THREE PERCENT REAL
GROWTH AND 10 TO 15 PERCENT INFLATION.) PROSPECTS
FOR THE ECONOMY IN 1977 WERE SEEN AS SIMILAR TO THE
PERFORMANCE IN 1976, BUT THE FFECTS OF COUNTRY'S CON-
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TINUING DROUGHT APPEAR MORE WORRISOME THAN AT THE
TIME OF PRESIDENT'S FEBRUARY 27 SPEECH. LOOKING
TOWARD THE MEDIUM- AND LONG-TERM FUTURE, PERICHE
EMPHASIZED THE IMPORTANCE OF INCREASED PRODUCTION AND
REITERATED THE CENTRAL BANK'S DETERMINATION TO CHANNEL
RESOURCES INTO THE MOST PRODUCTIVE USE POSSIBLE,
SPECIFICALLY INCREASED EXPORTATION OF GOODS AND SERVICES.

END SUMMARY.

1. IN HIS ANALYSIS OF LAST YEAR'S ECONOMIC PERFORMANCE, PERICHE STATED THAT THE ECONOMY HAD OVERCOME WITH QUOTE RELATIVE SUCCESS UNQUOTE BOTH INTERNAL AND EXTERNAL QUOTE ADVERSE FACTORS. UNQUOTE GROSS DOMESTIC PRODUCT (GNP) GROWTH AGAIN WAS PEGGED AT 5.4 PERCENT IN REAL TERMS, A RATE HIGHER, HE CLAIMED, THAN IN 1975. SIGNIFICANT EXPANSION IN LIVESTOCK, AGRICULTURAL, AND MINING SECTORS OF THE ECONOMY WAS NOTED. A SLOWING OF THE GROWTH RATES IN CONSTRUCTION AND INDUSTRY WAS LAID TO, IN THE FORMER, REDUCED GOVERNMENT SPENDING AND, IN THE LATTER, TO THE IRREGULAR ELECTRICAL SERVICE THROUGH MOST OF LAST YEAR. THE GOVERNMENT DID NOT TOUCH BUDGET RESERVES OF \$60 MILLION FROM 1975, AND PRODUCED ANOTHER BUDGET SURPLUS, OF \$14.6 MILLION, IN 1976. CENTRAL BANK CREDIT TO COMMERCIAL BANKS INCREASED 11.9 PERCENT AND COMMERCIAL BANK CREDIT TO PRIVATE BORROWERS ROSE 15.3 PERCENT TO \$101.5 MILLION. PERICHE EMPHASIZED THE GOVERNMENT'S BELIEF THAT THERE WAS NO LACK OF CREDIT AVAILABLE TO THE PRIVATE SECTOR IN 1976 DESPITE CLAIMS TO THE CONTRARY AND ARGUED AGAINST MORE RAPID EXPANSION OF INTERNAL CREDIT ON GROUNDS THAT IT COULD QUOTE CREATE GREAT FLUCTUATIONS IN THE BALANCE OF PAYMENTS AND GENERAL PRICE SITUATION WHICH WOULD HAVE MEDIUM-TERM NEGATIVE EFFECTS ON INDUSTRIAL AND COMMERCIAL ACTIVITIES. UNQUOTE

2. PERICHE OFFERED VARIOUS REASONS FOR THE SMALL \$30.2 LIMITED OFFICIAL USE

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MILLION BALANCE-OF-PAYMENTS DEFICIT IN 1976. THE EXPLANATIONS INCLUDED INCREASED EXPORT EARNING FROM COFFEE, COCOA, AND GOLD; IMPORT TOTALS ONLY EQUALING THOSE OF 1975; THE CENTRAL BANK PRACTICE OF MAKING IMPORTERS OBTAIN FOREIGN EXCHANGE FOR SOME ITEMS THROUGH THE PARALLEL MARKET; AND, ALMOST IN PASSING; FOREIGN LOANS TO STATE-OWNED AND PRIVATE ENTERPRISES.

3. IN CONCLUDING HIS RESUME OF 1976, PERICHE EMPHASIZED THAT ONE OF THE MOST IMPORTANT ACCOMPLISHMENTS LAST YEAR WAS SLOWING THE RATE OF INFLATION TO 7.8 PERCENT COMPARED TO PREVIOUS YEARLY TOTALS OF 13-15 PERCENT. HE CITED INCREASED AGRICULTURAL PRODUCTION AND PRUDENT MONEY AND CREDIT POLICIES AS FACTOR IN THE DECLINE.

4. THE BANK, ACCORDING TO PERICHE, HAS PLAYED AND WILL CONTINUE TO PLAY AN ACTIVE ROLE IN ADJUSTING MONETARY, EXCHANGE, AND INTEREST RATES. HE CITED EXAMPLES SUCH AS FIXING A MAXIMUM INTEREST RATE ON TIME AND REGULAR

DEPOSITS, MORE CAREFUL REGULATION OF BOTH LOANS TO COMMERCIAL BANKS AND REQUESTS FOR FOREIGN LOANS, AND ENFORCEMENT OF LEGAL RESERVE REQUIREMENTS. ADDITIONALLY, WITH REGARD TO INTERNAL CREDIT, PERICHE SERVED NOTICE THAT QUOTE IT IS THE INTENTION OF THE CENTRAL BANK TO CONTROL... (CREDIT) IN SUCH A WAY AS TO PERMIT NORMAL DEVELOPMENT OF THE ECONOMIC ACTIVITIES OF THE COUNTRY AND AT THE SAME TIME ASSURE AN EQUILIBRIUM IN OUR EXTERNAL PAYMENTS SITUATION. UNQUOTE

5. CONCERNING THE BALANCE OF TRADE FOR 1977, THE SITUATION AS SEEN BY PERICHE IS LESS PROMISING SINCE PRELIMINARY ESTIMATES BY THE CENTRAL BANK SHOWED A QUOTE SIGNIFICANT DEFICIT. UNQUOTE TO FINANCE THAT DEFICIT THE GOVERNMENT HAS ALREADY AGREED TO LOANS TOTALING SOME \$77 MILLION, \$60 MILLION OF THAT FROM VENEZUELA TO COVER SOME PETROLEUM IMPORTS AND ANOTHER \$17 MILLION LIMITED OFFICIAL USE

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OF FIRST TRANCHE CREDIT FROM THE INTERNATIONAL MONETARY FUND (IMF). EVEN THOSE LOANS, HOWEVER, WERE NOT SUFFICIENT TO EQUAL THE ANTICIPATED TRADE DEFICIT AND, THEREFORE, FURTHER RESTRICTIONS ON ITEMS WHICH CAN BE IMPORTED WITH OFFICIAL FOREIGN EXCHANGE BECAME NECESSARY. IT IS PERICHE'S CONTENTION THAT THE MEASURES ALREADY TAKEN WILL BE SUFFICIENT TO CARRY THE COUNTRY THROUGH 1977 AND HE ANTICIPATES NO NEW ADDITIONS TO THE LIST OF ITEMS WHOSE IMPORTATION IS PROHIBITED WITH OFFICIAL FOREIGN EXCHANGE BARRING QUOTE THE OCCURRENCE OF SOME PHENOMENON TOTALLY UNFORESEEN AT THIS MOMENT. UNQUOTE

6. CONCLUDING HIS SPEECH WITH A LOOK AT MEDIUM- AND LONG-TERM POTENTIAL, PERICHE REITERATED THAT THE GOVERNMENT'S FUNDAMENTAL GOALS QUOTE SHOULD BE BASED ON PRODUCTION GROWTH AND THAT SUCH GROWTH SHOULD GENERATE THE GREATEST NUMBER OF JOBS POSSIBLE SO THAT THE BENEFITS OF MATERIAL PROGRESS MAY BE HSARED BY ALL DOMINICANS. UNQUOTE THE GREATEST AMOUNT OF RESOURCES SHOULD BE DIRECTED TOWARD STIMULATING EXPORTS OF GOODS AND SERVICES, WITH THE CAUTION THAT SUCH EXPORTATION NOT BE DETRIMENTAL TO INTERNAL CONSUMPTION. SPECIFICIALLY, PERICHE CITED THE NEED FOR REHABILITATION OF COFFEE AND COCOA PLANTATIONS, AND MODERNIZATION OF THE SUGAR INDUSTRY. HE EMPHASIZED IMPORTANCE OF CONTINUED MINING EXPANSION AND ANNOUNCED FOR THE FIRST TIME THAT 25 PERCENT OF THE EARNINGS THE GOVERNMENT RECEIVES FROM THE 26 PERCENT ADDITIONAL EQUITY PURCHASED IN ROSARIO DOMINICANA WOULD BE INVESTED IN DEVELOPMENT OF SMALL- AND MEDIUM-SIZE MINING PROJECTS. PERICHE PAID BRIEF HOMAGE TO THE IMPORTANCE OF THE BUSINESS SECTOR IN THE DR'S

ECONOMIC DEVELOPMENT AND URGED THAT IT BECOME INVOLVED TO A GREATER EXTENT IN TOURISM AND MINING PROJECTS AND IN PRODUCING GOODS FOR EXPORT RATHER THAN SIMPLY TO REPLACE IMPORTS.

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7. COMMENT: PERICHE'S 31-PAGE SPEECH CONTINUED THE LONG TRADITION OF HIS PREDECESSOR IN TRYING TO PUT A GOOD FACE ON ECONOMIC DEVELOPMENT AND THE CENTRAL BANK'S STEWARDSHIP. THE POTENTIAL SERIOUSNESS OF THE TRADE DEFICIT IN 1977, NEVERTHELESS, CAME THROUGH. WITH LOANS OF NEARLY \$80 MILLION ALREADY NEGOTIATED AND MORE IMPORTERS FORCED INTO PARALLEL MARKET FOR FOREIGN EXCHANGE, IT IS APPARENT THAT THE GOVERNMENT EXPECTS A SUBSTANTIAL DEFICIT IN 1977 ON THE BALANCE OF PAYMENTS. EMBASSY ESTIMATES REAL GNP GROWTH OF TWO TO THREE PERCENT AND INFLATION OF 10 TO 15 PERCENT IN 1976. BALANCE-OF-PAYMENTS DEFICIT LAST YEAR WAS APPROXIMATELY \$50 MILLION. FOREIGN BORROWINGS WERE A LARGE FACTOR IN THE BALANCE-OF-PAYMENTS DEFICIT NOT BEING GREATER.
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